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Ian Carruthers
Chairman
International Public Sector Accounting
Standards Board
International Federation of Accountants

Submitted via website

1 August 2022

Comments to IPSASB's
ED 82 "Retirement Benefit Plans"

Dear Mr. Carruthers,

We are pleased to contribute to the improvement of the IPSASB's ED 82 "Retirement Benefit Plans".

Please find attached our responses to the specific matters for comments.

Should you need any further information, please do not hesitate to contact us.

Sincerely,

Thomas Müller-Marqués Berger
Partner and Global Leader of International Public Sector Accounting

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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Specific Matters for Comments (SMCs):

SMC 1: Paragraph 9 (see paragraphs BC10-BC13)

This Exposure Draft (ED) proposes amending the IAS 26 definition of "defined benefit plans" to include all retirement benefit plans that are not defined contribution plans. The definition proposed for a defined benefit plan is consistent with IPSAS 39, Employee Benefits, as follows:

'Defined benefit plans are retirement benefit plans other than defined contribution plans.' Do you agree with this proposal? If not, why not?

We agree with the proposed amendment because it enhances consistency in the terminology between the IPSAS standards.

SMC 2: Paragraph 9 (see paragraphs BC14)

This ED proposes to retain the IAS 26 definition for 'actuarial present value of promised retirement benefits' as it addresses the plan perspective rather than to use the IPSAS 39 definition for 'present value of a defined benefit obligation'. Do you agree with this proposal? If not, why not?

We agree with the proposed change in the definition since it addresses the plan perspective instead of the employer perspective.

SMC 3: Paragraph 10 (see paragraphs BC15)

This ED proposes that for defined benefit plans, the actuarial present value of promised retirement benefits be recognized and presented on the face of the statement of financial position as a provision for that obligation. This removes two options in IAS 26 which permit the actuarial present value of promised retirement benefits to be only disclosed in the notes to the financial statements or in a separate actuarial report. Do you agree with this proposed change? If not, why not?

We agree with the proposal because removing the option of presenting the obligation either in the face of the financial statements or in the notes would contribute in enhancing comparability of financial information between retirement plans. Further, the presentation of this important information on the face of the statement of financial position supports transparency and accountability.

SMC 4: Paragraph 11 (see paragraphs BC16)

IAS 26 does not specify whether or where the retirement benefit obligations for defined contribution plans should be recognized and presented. To achieve the objective of increased transparency and accountability, this ED proposes that defined contribution obligations should be recognized and presented on the face of the statement of financial position. Do you agree with this proposal? If not, why not?

We agree with the proposed recognition and presentation of the defined contribution obligations to be on the face of the statement of financial position.

SMC 5: Paragraph 12 (see paragraphs BC19)

IAS 26 allows plan assets to be valued at amounts other than fair value. This ED proposes that the plan's investments should be measured at fair value. Do you agree with this proposal? If not, why not?

We disagree with the proposal because there might be some investments that are not traded in an open market and therefore a fair value might be difficult to obtain (e.g. held to maturity investments that are measured initially at its transaction price and subsequently at amortized cost). We would suggest in the case of financial assets to allow a classification and measurement that is consistent with IPSAS 41, Financial instruments.

SMC 6: Paragraph 13 (see paragraphs BC17)

IAS 26 allows the actuarial present value of promised retirement benefits to be calculated using either current or projected salaries. This ED proposes that only projected salaries should be used. Do you agree with this proposal? If not, why not?

We agree with the proposition because removing the choice between current or projected salaries increases comparability of the financial information between retirement benefit plans, and it provides a more realistic overview of the promised retirement benefits. Furthermore, it is consistent with the requirements in IPSAS 39, Employee Benefits.

SMC 7: Paragraphs 15 (c) and 19 (see paragraphs BC23)

This ED proposes that a retirement benefit plan be required to prepare cash flow statement, whereas IAS 26 is silent on this. This ED also proposes that cash flow statement be prepared using the direct method. Do you agree with this proposal? If not, why not?

We agree with the proposal because in certain jurisdictions retirement benefit plans might have significant delays in collecting the contributions receivable from employers. Therefore, having the cash flow statement would contribute to an enhanced transparency, accountability, and a better decision making by the stakeholders of the plan.

SMC 8: Paragraph 27 (see paragraphs BC24)

This ED proposes prospective application of the requirements of the Standard, which would require an opening and closing statement of financial position in accordance with the Standard but no comparative figures in other financial statements. Do you agree with this proposal? If not, why not?

We agree with the proposition because it would allow a faster first-time implementation of the standard. However, it might be worth clarifying that comparative information is required in the subsequent periods.

SMC 9: Paragraphs BC20-BC21 and Implementation Guidance

Public sector retirement benefit plans are structured and/or regulated in many different ways, and jurisdiction-specific requirements on how to account for contributions and benefits may vary. As a result, this ED proposes not to require contributions or benefits to be accounted for as a specific element in the financial statements, which is aligned with the approach taken in IAS 26. Instead, Implementation Guidance and Illustrative Examples are provided to demonstrate different accounting presentations depending on how the contributions and benefits are viewed. Do you agree with this proposal? If not, why not?

We agree with the proposition, however the illustrative examples could be further elaborated for a better understanding. Perhaps having separate financial statement for each scenario would be easier to understand compared to its current presentation format.

In addition to the SMCs, we would like to provide additional suggestions in relation to other topics that have not been addressed in the ED:

- Disclosure on the deficit management: We would suggest adding a disclosure requirement, in case of deficit, on how the entity administering the retirement benefit plan intends to manage those deficits, including funding sources and other means. From a public interest perspective, it is important for the public to understand how the government plans to close potential deficits.
- Disclosure on risk concentration: We would suggest to further explain the benefits of the required disclosure in paragraph 22 (d): "*Details of any single investment exceeding either 5 percent of the net assets available for benefits or 5 percent of any class or type of security*". In practice, funds rarely provide a listing identifying these investments or their percentage in relation to the complete class of security, so it is important to highlight the expected benefits of providing such information.
- Non-passive interest in investments: In practice, retirement benefit plans may have non-passive interest in certain investments, therefore, it would be useful to consider the non-passive interests in the further development of the standard.

We would be pleased to provide you with further information if you require any clarification about the above comments.